

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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July 20, 2010

Mr. Carlos Monroy  
Director of Finance  
Alameda Corridor – East Construction Authority  
4900 Rivergrade Road, Suite A120  
Irwindale, CA 91706

Re: Alameda Corridor – East Construction Authority  
Audit of Indirect Cost Allocation Plan FY 2008/09  
File Number: P1590-0040

Dear Mr. Monroy:

We have audited the Alameda Corridor – East (ACE) Construction Authority's Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2009, to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. ACE management is responsible for the fair presentation of the ICAP. ACE proposed an indirect cost rate of 4 percent of total direct costs.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of ACE. Therefore, we did not audit and are not expressing an opinion on ACE's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by ACE, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting principles prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of ACE in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a review of ACE's independent audit report for the FY ended June 30, 2007, inquiries of ACE personnel, reliance placed on the financial audit report for the FY ended June 30, 2007, and prior audit field work performed by the Department in October 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Carlos Monroy, ACE Finance Director on December 09, 2009. Our findings and recommendations take into consideration ACE's response to our draft finding. Our findings and recommendations, a summary of ACE's response and our analysis of the response are detailed below.

## **AUDIT RESULTS**

Based on audit work performed, ACE's ICAP for the FY ended June 30, 2009, is presented in accordance with 2 CFR Part 225 and LPP 04-10, with the exception that the total direct cost base used in computing the indirect cost rate includes potentially distorting items such as capital expenditures and major subcontracts. This method has been allowed in prior audits and current ICAP. However, for FY 2009/10 and forward, ACE should change its methodology and use direct labor as the base. The approved indirect cost rate is 4 percent of total direct costs. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

ACE requested a provisional rate of 4 percent on November 11, 2009, for FY 2008/09. The Department's Audits and Investigation Division approved the provisional rate on November 11, 2009. Since the provisional rate and the approved rate are the same, no adjustment to previously reimbursed claims is necessary.

## **Audit Findings**

### **Finding 1:**

ACE included installation and repair costs associated to two servers in the amount of \$4,786 in its fixed assets schedule for depreciation purposes. The associated costs were also included within the indirect pool resulting in the costs being captured twice. As a result, all depreciation expenses associated with the \$4,768 for FY 2008/09 and forward must be

excluded. Failure to do so will result in our office rejecting ACE's ICAP regardless if the amount is material or not as this is a repeated finding noted in a prior audit.

2 CFR Part 225, Appendix A, Section C.1. a. and b, states in part to be an allowable cost it must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards.

2 CFR Part 225, Appendix B, Section 15.a. 2., states "equipment" means an article of nonexpendable, tangible personal property having a useful life or more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purpose or \$5,000.

**Recommendation:**

We recommend ACE perform the following, in future indirect cost allocation plans:

- Non-capital equipment under \$5,000 not be classified as fixed assets and included within the depreciation schedule.
- ACE exclude the equipment costs associated to the \$4,768 from its depreciation schedule.
- ACE exclude equipment costs from the indirect pool that is also included within the depreciation expense account.

**ACE's Response**

The auditee agreed with the finding and will revise future ICAPs accordingly.

**Analysis of Response**

The finding and recommendation remain as written.

**Finding 2:**

ACE included direct travel costs to various project sites for management and the C.E.O within the indirect cost pool. All direct travel costs for FY 2008/09 and forward must be excluded from the indirect cost pool. Failure to do so will result in our office rejecting ACE's ICAP regardless if the amount is material or not as this is a repeated finding noted in a prior audit.

2 CFR Part 225, Appendix A, Section E, "direct costs" states, direct costs are those that can be identified specifically with a particular final cost objective. Section E.2.d, states typical direct costs chargeable to Federal awards are travel expenses incurred specifically to carry out the award.

**Recommendation:**

We recommend ACE properly identify and classify direct travel costs in its indirect cost allocation plans.

**Ace's Response**

The auditee agreed with the finding and recommendation.

**Analysis of Response**

The finding and recommendation remain as written.

**Finding 3:**

ACE's ICAP includes total direct cost as its base which includes potential distorting items such as capital expenditures and major subcontracts. This method has been accepted in prior audits including the current ICAP. Based on organization changes within ACE and the utilization of more in-house employees, direct labor as the base is a more acceptable allocation method. Furthermore, ACE is able to identify direct labor charged to projects which further indicates and supports a direct labor base for allocation purposes.

2 CFR Part 225, Appendix E, Section C, states, the distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or an another base which results in an equitable distribution.

**Recommendation:**

We recommend ACE change its allocation method and use direct labor as its base beginning with FY 2009/10.

**ACE's Response**

The auditee agreed with the finding and will revise the allocation method accordingly, beginning with the FY 2009/10 ICAP.

**Analysis of Response**

The finding and recommendation remain as written.

This report is intended solely for the information of the DPW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). This report is a matter of public record and will be included on the "Reporting Transparency in Government" website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting and the FHWA. If you have any

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questions, please contact Carvin Seals Jr., Auditor, at (916) 323-7965 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

***Original signed by:***

MARYANN CAMPBELL-SMITH  
Chief, External – Local Governments

Attachment

c: Brenda Bryant, Director, Financial Services, Federal Highway Administration  
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration  
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass  
Transportation  
David Saia, LAPM/LAPG Coordinator, Caltrans Division of Local Assistance  
Jenny N. Tran, Associate Accounting Analyst, Local Program Accounting, Division of  
Accounting  
Kirk Cessna, District Local Assistant Engineer, Caltrans, District 7 Division of Planning  
P1590-0040

**Alameda Corridor – East Construction Authority**  
**FY 2009 Indirect Cost Plan**

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The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Authority and approved by the Department.

**SECTION 1: Rates**

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	4.0 %	All Programs

\* Base: Total Direct Expense

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

**C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements—any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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**FY 2009 Indirect Cost Plan**

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**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Calculation of Rate:**

FY 2009 Budgeted Indirect Costs	\$ 3,933,000 <See indirect cost calculation attachment B>
Carry Forward from FY 06-2007	\$ <u>(847,519)</u> <Carryforward Calculation attachment A>
Estimated FY 2009 Indirect Costs	\$ 3,085,481
FY 2009 Budgeted Total Direct Costs	\$ 76,386,000 <See indirect cost calculation attachment B>
FY 2009 Indirect Cost Rate	4.0%

**CERTIFICATION OF INDIRECT COSTS**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have

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been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Standing Committee of a JPA (San Gabriel Valley Council of Governments)

Signature: [Signature]

Signature: [Signature]

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: George Richmond

Name of Official: Carlos Monroy

Title: Chief Executive Officer

Title: Finance Director

Date of Execution: August 8, 2008

Phone: (626) 962-9292

**INDIRECT COST RATE APPROVAL**

The Department has reviewed this indirect cost plan and hereby approves the plan.

[Signature]  
Signature

[Signature]  
Signature

Reviewed and Approved by:

Reviewed and Approved by:

Clifford R Vase  
Name of Audit Manager

Carvin Seals Jr.  
Name of Auditor

Title: Senior Mgmt Auditor

Title: Auditor

Date: 21 July 2010

Date: 21 July 2010

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